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ABSTRACT

This report summarizes teachers' and employers' contribution rates to retirement, Social Security and Medicare, and major medical plans. Several Southern Regional Education Board (SREB) states have adopted multi-year goals to raise teacher pay, which involves additional costs for benefits tied to those salary increases. These benefits can add thousands of dollars to the cost of paying teachers. The total percentage that benefits add to the cost of teacher salaries is difficult to accurately determine in many SREB states. Contributions for retirement, Social Security, and Medicare are fairly straightforward (assessed as a percentage of the teacher's salary). However, the cost of major medical insurance is not usually tied to salary. Employer contribution rates vary depending on the type of plan and coverage each teacher selects. Determining the cost as a percentage of salary is complicated further because data are not available on many plans offered by local districts. This report presents tables on teacher retirement programs in SREB states (Social Security participation, employer contribution rates, teacher contribution rates, vesting period, benefits formula, and normal retirement provisions); major medical insurance (state plans and annual employer and employee contributions); and employer contributions for selected employee benefits as a percentage of average salary. (SM)

SREB

Beyond Salaries:

Employee Benefits for Teachers in the SREB States

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Beyond Salaries: Employee Benefits for Teachers in SREB States

It is not surprising that much attention is given to teachers' salaries, considering how much money is spent annually to pay the more than 1 million teachers in the 16 SREB states. Salaries are only part of the cost of compensating teachers; employee benefits can add thousands of dollars. *Beyond Salaries: Employee Benefits for Teachers in the SREB States* summarizes teachers' and employers' contribution rates for the most costly benefits: retirement, Social Security and Medicare, and major medical plans.

The success of efforts to raise student achievement will depend on the development of a dedicated, well-qualified teaching force. Compensation, including employee benefits, is one important factor in this quest.

This new Southern Regional Education Board publication is available online at www.sreb.org. Or you may call Gale Gaines, author of the report, at (404) 879-5582 if you have questions or would like additional copies of the report.

Beyond Salaries:

Employee Benefits for Teachers in the SREB States

The success of efforts in the SREB states to raise student achievement will depend on the ability to develop a dedicated, well-qualified teaching force. One important factor influencing states' abilities to recruit and retain well-qualified teachers is adequate compensation. Several SREB states have adopted multi-year goals to raise teacher pay and with these efforts come additional costs for benefits that are tied to these salary increases.

Much attention is given to teachers' salaries. This is not surprising considering how much money is spent annually to pay the more than 1 million teachers in the 16 SREB states. SREB states pay in excess of \$39 billion annually for teachers' salaries, likely the largest single expenditure in each state's budget. Salaries alone are only part of the cost of paying teachers. Employee benefits, including Social Security, retirement, and major medical plans, add to a teacher's salary in ways that are not always visible.

These benefits also can add thousands of dollars to the cost of paying each teacher. Additional benefits offered by states and school districts, such as dental and optical insurance, disability coverage and life insurance, can further add to the cost. To help SREB states in discussions about teacher compensation, this paper summarizes contribution rates for teachers and employers for the most costly benefits: retirement, Social Security and Medicare, and major medical plans.

The total percentage benefits add to the cost of teacher salaries is difficult to accurately determine in many of the SREB states. Contributions for retirement, Social Security and Medicare are fairly straightforward and are assessed as a percentage of the teacher's salary. The cost of major medical insurance usually is not tied to an individual's salary. Employer contribution rates frequently vary depending on the type of plan and the type of coverage selected by each teacher. Determining the cost as a percent of a teacher's salary is complicated further because data are not available on many of the plans offered by local districts.

Teacher retirement systems

Teachers in SREB states and across the nation either participate with state and local government employees in state retirement systems or in retirement systems for education employees usually called "teacher retirement systems." Teachers in seven SREB states (Delaware, Florida, Mississippi, North Carolina, South Carolina, Tennessee, and Virginia) participate in state retirement systems. Those in Alabama, Arkansas, Georgia, Kentucky, Louisiana, Maryland, Oklahoma, Texas and West Virginia participate in teacher retirement systems.

In most cases, retirement contribution rates are consistent for all teachers within a state. Among SREB states, total contributions (employer plus employee) to retirement systems range from 8.7 percent of each teacher's salary in Tennessee to 23 percent in Kentucky. The employer contributions range from 3.7 percent of the teacher's salary in Tennessee to 14 percent in Louisiana. Teachers pay from 2 percent of their salaries in Maryland to nearly 10 percent in Kentucky. Employer contributions to the retirement system are greater in most states than the rates teachers are required to pay. However, teachers in Oklahoma, Tennessee and Texas pay a higher percentage of their salaries toward retirement than do their employers.

Teachers in Florida and some teachers in Arkansas and Virginia make no contributions to their retirement systems. Florida's system is "non-contributory" — that is, teachers and other state employees do not contribute. Teachers in Arkansas are not required to pay into the retirement system but can elect to contribute, resulting in a higher benefit upon retirement. In Virginia, most school districts pay the employee portion of the retirement contribution.

Teachers in most SREB states participate in the federal Social Security System. Both the employer and the teacher each contribute 6.2 percent of the teacher's salary plus 1.45 percent for Medicare. Districts in Kentucky and Louisiana and most of those in Texas do not participate in Social Security so only the Medicare contributions are made. Some districts in Georgia and Oklahoma also do not take part in Social Security. In states not participating in Social Security, the "multiplier" used to calculate benefits upon retirement is generally higher than in other states, presumably to make up for this lack of coverage.

Teacher retirement programs in the SREB states, 2000-01

	Social Security participation	Employer contribution rates	Teacher contribution rates	Vesting period (in years)
Alabama	Yes	6.38%	5%	10
Arkansas	Yes	12	0 or 6	5
Delaware	Yes	7.44	3% of earnings over \$6,000	5
Florida ¹	Yes	9.15	0	10
Georgia	Some	11.29	5	10
Kentucky	No	13.105	9.855	5
Louisiana	No	14.2	8	10
Maryland ²				
TPS	Yes	10.95	2	5
TRS		10.95	5 or 7	5
Mississippi	Yes	9.75	7.25	4
North Carolina	Yes	7.13	6	5
Oklahoma	Some	5.8	7	10
South Carolina	Yes	7.55	6	5
Tennessee	Yes	3.75	5	5
Texas	Some	6	6.4	5
Virginia ³	Yes	7.54 or 12.54	5 or 0	5
West Virginia ⁴				
TDC	Yes	7.5	4.5	12
TRS		15	6	5

¹ In Florida, the employer contribution rate includes 0.94% for a health insurance subsidy. Legislation passed in 2000 reduced the vesting period from 10 years to 6 years effective July 1, 2001, for members who are actively employed on that date.

² In Maryland, the Teacher Retirement System (TRS) closed to new members in 1980. Teachers hired after that time participate in the Teacher Pension System (TPS).

³ In Virginia, most districts contribute the teacher's share of the retirement contribution.

⁴ In West Virginia, the Teacher Retirement System (TRS) closed to new members in 1991. Teachers hired after that time participate in the Teacher Defined Contribution Plan (TDC).

Teacher retirement programs in the SREB states, 2000-01, (continued)

	Benefits formula (FAS = final average salary)	Normal retirement provisions
Alabama	$2.0125\% \times \text{years} \times \text{FAS}$	Age 60 with 10 years' service Any age with 25 years' service
Arkansas	$(2.125\% \times \text{years with member contribution} + 1.365\% \times \text{years without member contribution}) \times \text{FAS}$	Age 60 with 5 years' service Any age with 28 years' service
Delaware	$1.8\% \times \text{years} \times \text{FAS}$	Age 62 with 5 years' service Age 60 with 15 years' service Any age with 30 years' service
Florida	$(1.6\% \text{ to } 1.68\%) \times \text{years} \times \text{FAS}$	Age 62 with 10 years' service Any age with 30 years' service
Georgia	$2\% \times \text{years} \times \text{FAS}$	Age 60 with 10 years' service Any age with 30 years' service
Kentucky	$(2\% \times \text{years} \times \text{FAS for service prior to 7/83}) + (2.5\% \times \text{years} \times \text{FAS for service after 7/83})$	Age 60 with 5 years' service Any age with 27 years' service
Louisiana	$2.5\% \times \text{years} \times \text{FAS}$	Age 65 with 20 years' service Age 60 with 10 years' service Age 60 with 20 years' service (if hired before 1/1/99) Age 55 with 25 years' service Any age with 30 years' service
Maryland ¹		
TPS	$(1.2\% \times \text{years} \times \text{FAS for service prior to 7/98}) + (1.4\% \times \text{years} \times \text{FAS for service after 7/98})$	Age 62 with 5 years' service Age 63 with 4 years' service Age 64 with 3 years' service Age 65 with 2 years' service Any age with 30 years' service
TRS	$1.8\% \times \text{years} \times \text{FAS}$	Age 60 with 5 years' service Any age with 30 years' service
Mississippi	$(1.875\% \times \text{years up to } 10 \times \text{FAS}) + (2\% \times \text{years } 10 \text{ through } 25 \times \text{FAS}) + (2.25\% \times \text{years over } 25 \times \text{FAS})$	Age 60 with 4 years' service Any age with 25 years' service
North Carolina	$1.8\% \times \text{years} \times \text{FAS}$	Age 65 with 5 years' service Age 60 with 25 years' service Any age with 30 years' service
Oklahoma	$2\% \times \text{years} \times \text{FAS}$	Age 62 with 10 years' service Age plus years' service = 90 ²
South Carolina	$1.82\% \times \text{years} \times \text{FAS}$	Age 65 with any years' service Any age with 28 years' service
Tennessee	$1.5\% \times \text{years} \times \text{FAS} + 0.25\% \times \text{years} \times (\text{FAS} - \text{Social Security Integration Level})$	Age 60 with 5 years' service Any age with 30 years' service

Teacher retirement programs in the SREB states, 2000-01, (continued)

	Benefits formula (FAS = final average salary)	Normal retirement provisions
Texas	$2.2\% \times \text{years} \times \text{FAS}$	Age 65 with 5 years' service Age plus years' service = 80
Virginia	$1.7\% \times \text{years} \times \text{FAS}$	Age 65 with 5 years' service Age 50 with 30 years' service
West Virginia ³		
TDC	Benefits based on accrual	Age 55 with 12 years' service
TRS	$2\% \times \text{years} \times \text{FAS}$	Age 55 with 30 years' service Any age with 35 years' service

¹ In Maryland, the Teacher Retirement System (TRS) closed to new members in 1980. Teachers hired after that time participate in the Teacher Pension System (TPS).

² In Oklahoma, teachers who joined the retirement system before July 1992 may retire when their age plus years' service equals 80.

³ In West Virginia, the Teacher Retirement System (TRS) closed to new members in 1991. Teachers hired after that time participate in the Teacher Defined Contribution Plan (TDC).

Major medical coverage

Most SREB states provide a state plan for major medical coverage that often includes several options from which to choose (for example, Health Maintenance Organizations, Preferred Provider Organizations and Point of Service plans). These options frequently have different contribution levels for teachers and for employers. Contribution rates for teachers, and often employers, also vary depending on the type of coverage selected, such as family, couple, employee plus children or single.

Two states, Maryland and Texas, do not provide statewide major medical plans for teachers — individual school districts offer a variety of options — though, legislation under consideration in Texas would create a state health plan option for teachers. Several states, including Florida, Louisiana, Oklahoma, Tennessee and Virginia, provide coverage either through the state plan or district plans. Until recently, all districts in Florida provided local health plans. Legislation passed in 2000 allowed school districts in smaller counties — those with a population of less than 100,000 — to join the state employee health plan. About half of the state's 67 counties qualify. Districts in larger counties are not eligible to participate in the state plan.

Major medical insurance

	Is a state plan offered?	Annual employer contribution	Annual employee contribution
Alabama	Yes	\$4,140	\$24 (single) \$1,608 (family)
Arkansas	Yes	\$1,368	\$1,013 to \$1,200 (single) \$5,001 to \$5,522 (family)
Delaware	Yes	\$2,900 (single) \$7,386 (family)	0 to \$408 (single) 0 to \$1,077 (family)
Florida ¹	Yes	\$2,006 (average)	\$132 (average single) \$3,170 (average family)
Georgia	Yes	\$4,406 (average)	\$506 to \$1,320 (single) \$1,479 to \$3,036 (family)
Kentucky	Yes	\$2,808 to \$3,522	0 for most (single) \$4,243 to \$5,282 (family)
Louisiana ²	Yes	\$1,390 to \$1,530 (single) \$2,667 to \$3,019 (family)	\$1,390 to \$1,530 (single) \$2,667 to \$3,019 (family)
Maryland	No	Not available	Not available
Mississippi	Yes	\$2,316	0 (single) \$3,480 (family)
North Carolina	Yes	\$2,256	0 to \$941 (single) \$3,372 to \$6,121 (family)
Oklahoma ³	Yes	\$1,054 to \$1,191 (single) \$3,165 to \$3,612 (family)	\$1,054 to \$1,191 (single) \$3,165 to \$3,612 (family)
South Carolina	Yes	\$2,336 (single) \$5,061 (family)	\$200 to \$693 (single) \$1,424 to \$4,785 (family)
Tennessee	Yes	\$1,068 to \$1,280 (single) \$2,664 to \$3,043 (family)	\$1,305 to \$1,491 (single) \$3,257 to \$3,719 (family)
Texas ⁴	No	\$1,671 (average)	\$608 (average single) \$4,383 (average family)
Virginia	Yes	\$2,296 (average)	\$350 (average single) ⁵ \$3,437 (average family) ⁵
West Virginia	Yes	\$2,820 (single) \$5,712 (family)	\$143 to \$432 (single) ⁶ \$658 to \$2,513 (family) ⁶

¹ Florida information is for 1998. Legislation passed in 2000 allows districts in counties with populations of less than 100,000 to join the state employee health plan.

² In Louisiana, the information is for the state plan in which two-thirds of the state's districts participate. The remaining districts offer local plans.

³ In Oklahoma, the information is for the state's main health plans.

⁴ In Texas, the information is for 1999-2000 and is based on a survey that included responses from 67% of the state's districts.

⁵ In Virginia, the average employee contribution rates are for 1998-99.

⁶ In West Virginia, employee premiums vary depending upon the teacher's salary. Figures provided are based on the state's average teacher salary.

Employer contributions for selected benefits as a percent of average salary _____

Of the more costly employee benefits, major medical coverage is the most difficult to equate as a percent of the average teacher salary because of the wide variation in contribution rates and plans offered by states and local districts. For the purpose of estimating major medical insurance, an approximate percentage cost was derived for most SREB states by comparing what is known about the contribution rate in each state to the average teacher salary. In Kentucky, South Carolina and West Virginia, state Departments of Education provided estimated percentages, either for major medical or for all benefits. Departments of Education in Louisiana and Oklahoma provided budget figures for salaries and employee benefits that allowed a percentage to be estimated.

How much do retirement, Social Security/Medicare and major medical insurance add to the cost of a teacher's salary? The costs range from about 12 percent for most teachers in Texas to an average of 32 percent in West Virginia. Knowing that SREB states spend in excess of \$39 billion annually for teachers' salaries, it is clear that employee benefits are a significant factor in state and local school budgets. While these expenses are not going directly "into the pockets of teachers," they are a part of a teacher's total compensation and benefit teachers and their families in ways that are not easily measured.

Employer contributions for selected employee benefits
as a percent of average salary

	Retirement	Social Security/ Medicare	Estimated major medical	Estimated percent of salary for selected benefits
Alabama	6.38%	7.65%	11%	25%
Arkansas	12	7.65	4	24
Delaware	7.44	7.65	6 (single) 16 (family)	21 (single) 31 (family)
Florida	9.15	7.65	6	23
Georgia	11.29	7.65 or 1.45 (Medicare only)	11 (average)	23 or 29
Kentucky	13.105	1.45 (Medicare only)	9 (average)	23
Louisiana	14.2	1.45 (Medicare only)	8 ¹ (average)	23
Maryland	10.95	7.65	Not available	Not available
Mississippi	9.75	7.65	7	25
North Carolina	7.13	7.65	6	20
Oklahoma	5.8	7.65 or 1.45 (Medicare only)	Not available	19 ¹
South Carolina	7.55	7.65	Not available	25 ²
Tennessee	3.72	7.65	3 (single) 8 (family)	14 (single) 19 (family)
Texas	6	7.65 or 1.45 (Medicare only)	4 (average)	12 or 18
Virginia	7.54 or 12.54 ³	7.65	6 (average)	21 to 26
West Virginia	12.48 (Average)	7.65	12 (average)	32

¹ In Louisiana and Oklahoma, the estimates were derived from data supplied by the state Departments of Education. Oklahoma's estimate includes all benefits.

² In South Carolina, the percentage was estimated by the state department of education and includes all benefits.

³ In Virginia, most districts pay the teachers' share of the retirement contribution.

Selected Resources

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